UTILITY BOARD/COMMON COUNCIL
Thursday, July 26, 2012
7:00 P.M.

The Common Council and Utility Board of the City of Huntingburg met in joint session at its regularly scheduled meeting time on Thursday, July 26, 2012 at the hour of 7:00 P.M. in the Council Chambers of the Huntingburg City Hall at 508 E. Fourth Street, Huntingburg, Indiana. Members Lehr, Kissling, McPherron, Blackgrove and Summers were present. Also present were Mayor Spinner and City Attorney Schneider.

Mayor Spinner called the meeting to order.

A motion was made by Summers, seconded by Kissling and carried to approve the minutes of the July 12, 2012 meeting as presented.

A motion was made by Kissling, seconded by McPherron and carried to approve the claims as presented.

Attorney Schneider summarized the City's redistricting requirements based on the most current decennial census noting that the City must review its council/legislative districts by December 31, 2012 for the 2010 decennial census. Maps of the redistricting of the County political precincts revised for the 2010 decennial census and current City council/legislative districts were previously distributed and show slight boundary differences.

Schneider indicated that the 2010 Census for Patoka political precincts drawn by the County are reflected as:

Political Precinct	Population
Patoka 1	1,523
Patoka 2	1,501
Patoka 3	1,514
Patoka 4	1,519
Total	6,057

The Mayor indicated that the redistricting information is presented for review and will be acted on by the end of the year.

The Mayor reminded all that for over a month now citizens have been asked to conserve water due to the drought conditions. He felt that as a matter of record it would be good to officially enact a notice of voluntary conservation as provided for in the Huntingburg Municipal Code. He presented a proposed notice titled:

NOTICE OF LEVEL 1 WATER CONSERVATION
CITY OF HUNTINGBURG INDIANA

He requested the Council approve the water conservation notice as presented.

A motion was made by Blackgrove, seconded by McPherron and carried to declare a water conservation emergency and to implement level 1 under chapter 52.06 of the Huntingburg Municipal Code.

The Mayor proposed that special meetings of the Huntingburg Common Council be scheduled to go over the 2013 budget on August 14, 2012 at 8:30 A.M. and August 15, 2012 at 3:00 P.M.

A motion was made by Summers, seconded by Blackgrove and carried to approve August 14, 2012 at 8:30 A.M. and August 15, 2012 at 3:00 P.M. as special meetings of the Huntingburg Common Council.

Utilities Superintendent Traylor presented his monthly report. He indicated that he had a meeting with Patoka Water to discuss future water reductions due to the current drought situation and noted that as of August the City will no longer have to work a shift on Saturday to make up for conservation efforts.

Traylor presented quotes for finishing the required Emergency Action Plan (EAP) for the City Lake. The quotes were:

Banning Engineering	$ 6,900.00
Commonwealth Engineers	24,800.00
Morley and Associates	39,890.00

Traylor recommended accepting the low quote of Banning Engineering.

A motion was made by Kissling, seconded by Lehr and carried to accept the low quote of Banning Engineering in the amount of $6,900.00 as presented.

Traylor presented a bid tabulation for the West Ground Storage Tank Improvement Project. He noted that the bids were reviewed by Gary Ladd of Ladd Engineering. Gary Ladd provided a letter indicating that he recommends the acceptance of the low bid of Utility Service Co., Inc. in the amount of $244,600.00 which includes a deduct of $23,000.00 for spot prime and finish on the exterior of the tank. Traylor recommended acceptance of the low bid from Utility Service Co., Inc. also.

A motion was made by Summers, seconded by Blackgrove and carried to accept the low bid of Utility Service Co., Inc. in the amount of $244,600.00 for the project noted above.

Traylor led a lengthy discussion on the future of the City's natural gas storage field. He presented a report, "City of Huntingburg Gas Storage Field Q & A" (Exhibit A). He also presented a gas storage field cost overview. He indicated that the gas storage field will cost an average of $26,575 per year to operate. It was noted that the amount of money that the City is losing per year is unacceptable.

A motion was made by Lehr, seconded by McPherron and carried to authorize Utilities Superintendent Traylor to proceed with the measures necessary to abandon the gas storage field.

Member Kissling thanked Nick Stevens, Executive Director of the Huntingburg Chamber of Commerce for the great recent Huntingburg 175 year anniversary kickoff.

There being no further business before the Council, a motion was made by Kissling, seconded by Blackgrove and carried to adjourn the meeting at 7:54 o'clock P.M.

Dennis W. Spinner
Mayor

Thomas A. Dippel
Clerk-Treasurer

common council
7/24/12
7:00 p.m.
Exhibit A

City of Huntingburg Gas Storage Field Q & A

Q. **Why is the Gas Storage Field in question now?**

A. The Indiana Utility Regulatory Commission (IURC) has determined that since we operate a gas storage facility (U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration PHMSA part 192.3 Definitions) that approximately nine miles of 4" steel main that starts at our Midwest Gas Transmission tap near Stendal, Indiana and runs along old Hwy. 64 then turns onto C.R. 500 to our gas storage field is by definition a transmission main. Because of this new correlation with the newly defined transmission main, the Utility Board must determine if the gas storage field is a viable money saver to the rate payers in light of the costs directly related to maintaining a transmission main.

Q. **What does the IURC classifying this 4" distribution main into a transmission main mean for the City of Huntingburg Gas Utility?**

A. Here is a preliminary list of upgrades/changes to policy that I currently know of.

1. We will first have to determine what class of transmission main we have in our system. According to 192.5, there are 4 classes of transmission pipelines. Each class presents its own set of timetables and guidelines. Preliminary it looks like we will be a Class 3 trasmission line due to a church being located along the 4" main. Being a Class 3 requires the following:

- 100% of new welds need to be nondestructively tested (x-rayed) (192.243:192.328)
- Every four miles there has to be a block valve and in-between these valves we must have blowdown valves (192.179)
- A leak survey will have to be conducted twice in a calendar year along this main (192.706).

To x-ray the welds will cost us around $2,800/day no matter if it is one weld or 10 welds. We will also have to make sure that the x-ray company is willing to meet all the requirements the IURC puts on contractors that do work for us such as drug and alcohol testing. The block and blowdown valves could be as high as $80,000 to complete due to the x-raying of the welds and having to run bypasses on the 4" main. The leak survey that will have to be done bi-annually will cost us around $4,000.

2. We will have to identify any high consequence areas (HCA) along this gas main (192.905). To do this we will have to find out what the Potential Impact Radius (PIR) along these nine miles of main are (192.903), then determine what HCA's are in this PIR. We can separate these HCA's into just the affected areas if need be. The following is required in a determined HCA area in a Class 3 transmission main (Appendix E; 1 thru 3):

- Bi-monthly patrols, document and track all construction activity near pipeline and report and investigate any unreported activity near the line.
- Initial in-line inspection and then cycle every 20 years.
- Initial direct assessment then cycle every 20 years.
- Perform an electrical survey every seven years, which includes multiple reports done throughout those seven years and compiling them into a single survey.
- Annually obtain gas analysis of gas being transported in the 4" main and test for corrosive agents in that gas.
- Annually test fluids removed storage field and perform a chemical analysis.

The patrols and excavation monitoring will not expensive, but will take up valuable time with limited help. The baseline assessments for internal corrosion will have to be done by pressure testing every seven years, as pigging (which would of extended this to every 20 years)is not an option with 4" mains. USDI estimates this pressure testing will cost $30,000 initially and then every seven years after that. The chemical analysis for the transmission main and storage facility will run $700 annually.

3. The Gas Utility will have to start filling out two new Federal annual reports:

- DOT Form PHMSA F 7100.2
- DOT Form PHMSA F 7100.2.1 – Part 191 of the DOT PHMSA Regulation book- 191.15:191.17.

4. Subpart O 192.901–192.951 Transmission Pipeline Integrity Management of Part 192 of the DOT PHMSA regulations state we will have to have a separate Transmission Integrity Management Program (TIMP). Also, under this TIMP plan (192.935), 100% of excavations along these nine miles have to be inspected before it is covered. If we find out that there was an unmonitored excavation, we have to uncover this excavation and determine that no damage was done to our transmission main. The cost to start a TIMP from scratch with USDI's help is $5,000. This $5,000 also includes help with meeting subpart L, M and N below.

5. Subpart L and M 192.601-192.631/192.701-192.761– Operations and Maintenance of part 192 of the DOT PHMSA regulations states our Operational and Maintenance Program has to be updated to reflect the new transmission requirements.

6. Subpart N 192.801-192.809 – Operator Qualification of Part 192 of the DOT PHMSA regulations states our Operator Qualification Program has to reflect the addition of the transmission main.

7. The City of Huntingburg Gas Utility never established a MAOP for this 4" gas main. We will have to establish one no matter if it is considered transmission or distribution main. However the cost to establish the MAOP will be more expensive due to the increased pressure we would have to operate it at if we keep the storage field and also because of x-raying and more expensive materials that could handle the higher pressures.

Q. **Since the IURC will designate the 4" distribution main to transmission status if we keep operating the gas storage field how will this affect the storage field itself?**

A. The IURC also looked at the storage field and noted several deficiencies while they were looking into the 4" main feeding this storage facility. The gathering lines that start at each well head and meet up at the Dehydration Plant (DEHY) are under a separate set of rules that mimic transmission regulations – 192.9. The IURC has never addressed the storage field since the City started operating it in the early 90's. Now with more stringent Federal and State regulations this past decade the IURC is cracking down on such facilities. We will have to do the following at the storage field if we decide to keep operating it:

1. Subpart A – 192.9 – General: Several requirements are listed under this Code and they are as follows: control corrosion via anode bags or rectifier, establish a Maximum Allowable Operating Pressure and have line markers in place. Establishing a MAOP for the gathering lines may cost a minimum of $50,000. This cost of establishing a MAOP is expensive as no records exist on where this pipe actually lays in the ground or has been verified for specifications on any of the material. A rectifier would be the way to go for meeting the corrosion control regulation as it's a more permanent solution and would cost $5,000 for the actual equipment and USDI's help in planning its location and size would cost up to $4,000. The line markers would only cost around $40/each but placement is a problem due to the gathering lines being mostly under crop ground.

2. Appendix E.II.3 – Again under this regulation we will have to grab a sample of fluid that comes out of the storage facility and run a chemical analysis. This test will cost $350 annually.

Q. If we keep the gas storage field is there anything we have to do as far as operating the field?

A. Yes. We will have to fix three 1" siphon tubes that are corroded beyond repair and inject biocide to counter act the bacteria that is creating a corrosive condition coming out of the field and is being introduced into our pipeline when we withdraw from the field. The estimated cost of this is around$20,500. We will have to monitor how the biocide is counteracting the bacteria and at that point determine a schedule when we will have to inject biocide again. Robinson Engineering suggested every five years.

The sulfur treat tower is undersized even for our current application and is becoming clogged with sulfur. This means that during the treatment process there is a potential of higher sulfur counts getting into our system. There has not been an issue yet as we are still maintaining pipeline quality gas, but tests show the parts per million creeping up on our sulfur tests. We have the material on site and it's just a matter of scheduling changing out the material. The last time we did this was nine years ago.

Q. If the Utility Board decides to abandon the gas storage field what steps need to be taken?

A. We have 11 well heads and one DEHY plant that will have to be addressed. DNR Oil and Gas Division require we would need to fill out a Well Plugging Plan for each well head. The current lease holders have the option to keep the well heads or any assets for the price of salvage according to the agreements signed. The cost to abandon each well is estimated to be $6,950 each well head but I would seek quotes to get this price lower. If no lease holder wants to pay salvage for the well heads, the total cost to abandon all 11 wells would cost a total of $76,450. The DEHY equipment inside the DEHY could be sold at a special auction and we could find someone to dismantle the DEHY building. All 11 well heads and the DEHY would be reclaimed and once completed and there would be no trace of assets after we reclaim everything. I have estimated the cost to reclaim the DEHY property at $15,000, but it could be a lot less depending on the proposed auction and how we handle the DEHY building and surrounding property.

There is 198, 532 MCF of gas above the cushion gas that we would try and withdrawal before we would abandon the field. This gas is worth $1,020,891.09. It would take operating the field for a full 12 months to pull this gas out of the field. One thing that everyone must realize is that gas lost due to blowing down each well since the early 90's to remove water was never accounted for. This means that what we currently show on paper as gas in the field is not accurate. We will not be able to recoup the full $1,020,891.09 and it will only be known how much gas is above cushion gas once we start to withdraw the gas. The Engineering report states that anything below 200 PSI is to be considered cushion gas. We currently are at 250 PSI in the gas storage field.

We currently have seven accounts that per agreement the City of Huntingburg gives the first 3,000 units of gas free. When they meet this threshold they have to start paying for the gas. Since 2001 we have given away $54,825.17 of free gas. Per agreement once we stop operating the storage field we no longer have to supply gas to these seven accounts.

We have 13 lease holders that we pay annual lease rentals too. The gas storage field assets sit on only four properties though. The lease payments would stop once the well heads have been plugged.

Q. What other costs are associated with abandonment of the gas storage field?

A. We would have to write off the original lease payment of $995, 400 and also the cushion gas that was first injected at a cost of $493, 252.88. This money has already been paid and would not come out of the current operational & maintenance account.

Q. Has the gas storage field up to this point been saving the rate payers money?

A. On average since 2001 the savings in gas alone coming out of the gas storage field have been $34, 537.42/year (so far this year it cost the rate payers $50,220.60 more than if we would have bought the gas in the open market though). If you figure in labor, lease payments, free gas, material, permits and utilities since 2001 the overall outlook is it costs us an average of $26,575.43/year to operate even when figuring in the savings of the gas. So if we abandon the gas storage field we would be saving a minimum of $17, 252.46/year. These savings do not include labor as we would not reduce the Gas Utilities work force of five men.

Q. Will gas rates go up if we keep the gas storage field due to the transmission main designation?

A. Since 2008, total operational costs have gone up 3% compared to fiscal year 2011. Total operational costs so for until July 2012 are down 2.81% compared to 2011 operational costs in the same time frame. Total net income for 2012 so far is down 35% compared to fiscal year 2011. This means the Utilities are keeping operational costs down but overall gas usage has been lower throughout the system. This trend of lower usage means less income for that same level of service we provide day in and day out. It is fair to say that keeping the gas storage field and continually losing money overall while operating it will bring discussion sooner on raising rates compared to starting the abandonment process now.

Q. There have been past Engineering reports that say this storage field is a viable option for the City to save money. Are the Utilities doing something wrong for us to not save money?

A. The Utilities are not doing anything wrong. There are many factors that contribute to the gas storage field not being a money maker. Below is a list of some of these factors:

- The gas field is under developed. Both the 1971 and 1990 reports state that 10 to 12 more wells need to be drilled to make the storage filed more viable for everyday use.

- The gas field has low permeability. Again both Engineering reports state that this low permeability will make gas deliverability hard thus why it was recommended to drill more wells to increase the flow rate.

- The gas storage field was to be used at peak demand periods. In the 1971 report it was first brought up about the Gas Utility using the storage field during peak demand usage. In 1971 the City did not have the Midwest Gas Transmission tap and the City was at one time had a gas moratorium (no new gas customers). The only feed Huntingburg had was Texas Eastern in Ireland and when the winter months came the Texas Eastern tap could not keep up with demand here in Huntingburg. So that is what is meant in the 1971 report about using at peak demand. The 1990 report also states that the gas storage field would be good to use at peak demand periods. The problem with that is in 1978 we tapped into Midwest Gas Transmission line and ran a 4" steel line all the way into Huntingburg. Since that time, we have had two gas connections that we purchased from on opposite sides of the gas distribution system. The Gas Utility no longer had deliverability issues and the moratorium was lifted.

- The gas storage field could be used for peak shaving. This was meant to inject gas when it was cheap and withdraw gas when it was higher on the open market. With new drilling technology and new gas reservoirs being found in the United States natural gas prices do not fluctuate nearly as much as they have in the in past. This trend of lower natural gas prices on the open market are forecasted to continue throughout the foreseeable future.